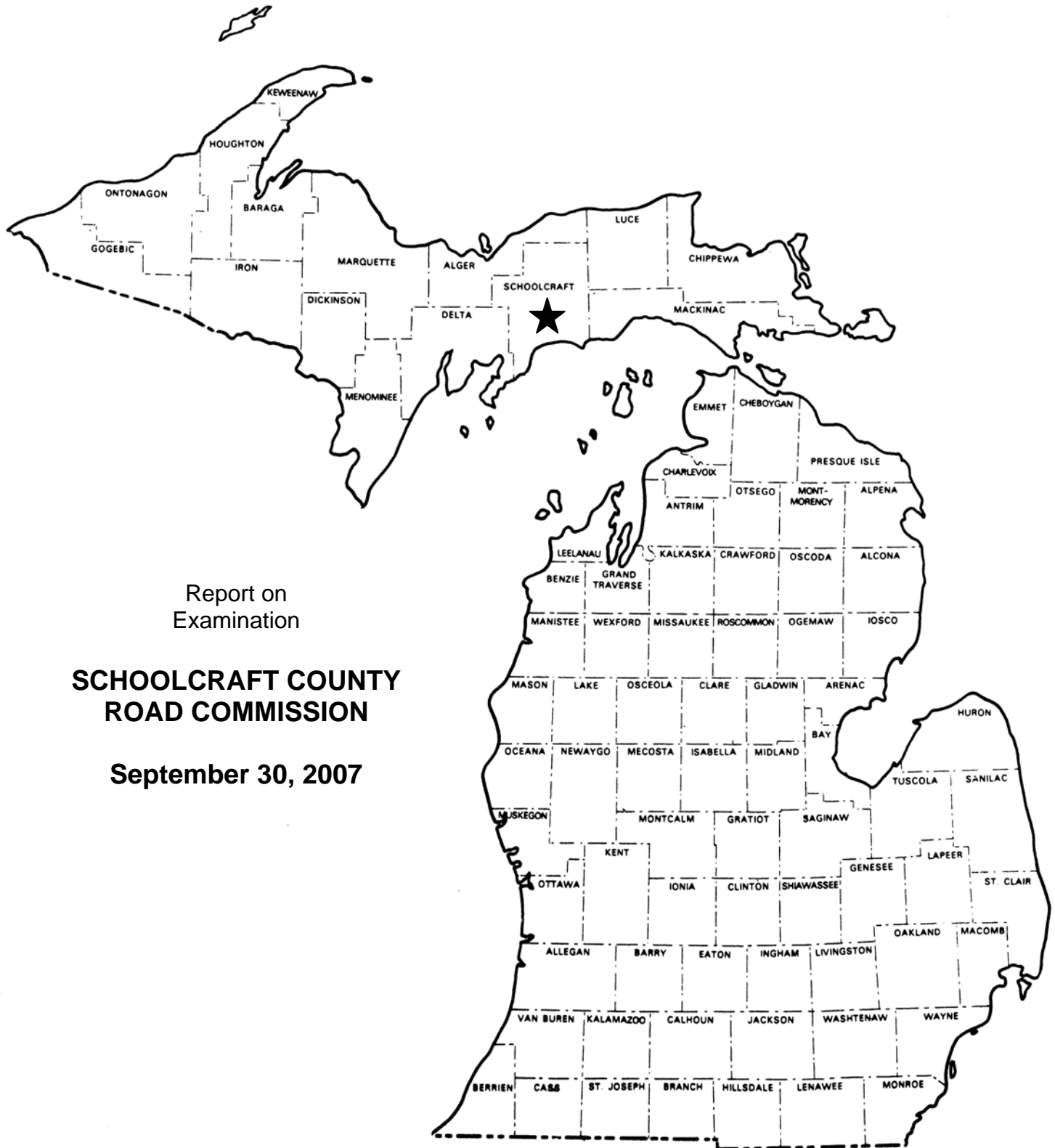


STATE OF MICHIGAN
JENNIFER M. GRANHOLM, Governor
DEPARTMENT OF TREASURY



Report on
Examination

**SCHOOLCRAFT COUNTY
ROAD COMMISSION**

September 30, 2007

SCHOOLCRAFT COUNTY ROAD COMMISSION
BOARD OF COUNTY ROAD COMMISSIONERS

Gregory L. Hase
Chairperson

Thomas J. Klarich
Vice Chairperson

Bernard J. Lund
Member

Albert L. Vail
Interim Manager/
Office Manager

COUNTY POPULATION--2000
8,903

STATE EQUALIZED VALUATION--2007
\$500,724,349



JENNIFER M. GRANHOLM
GOVERNOR

STATE OF MICHIGAN
DEPARTMENT OF TREASURY
LANSING

ROBERT J. KLEINE
STATE TREASURER

November 8, 2007

Schoolcraft County Road Commission
Board of County Road Commissioners
P.O. Box 160
Manistique, Michigan 49854

Independent Auditor's Report

Dear Commissioners:

We have audited the accompanying basic financial statements of the Schoolcraft County Road Commission, a component unit of Schoolcraft County, Michigan, as of and for the year ended September 30, 2007, as listed in the table of contents. These financial statements are the responsibility of the Road Commission's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Schoolcraft County Road Commission as of September 30, 2007 and the changes in financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, we have also issued our report dated November 8, 2007 on our consideration of the Schoolcraft County Road Commission's internal control over financial reporting and our tests on its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance

with Government Auditing Standards and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis on pages 1 through 7 and the budgetary comparison information in Exhibits G and H are not part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Schoolcraft County Road Commission's basic financial statements. The accompanying supplementary and related information presented in Exhibits I through K is for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements, taken as a whole.



Cary Jay Vaughn, CPA, CGFM
Audit Manager
Local Audit and Finance Division

SCHOOLCRAFT COUNTY ROAD COMMISSION

TABLE OF CONTENTS

	<u>Page</u>
MANAGEMENT' S DISCUSSION AND ANALYSIS.....	1
 BASIC FINANCIAL STATEMENTS--GOVERNMENT-WIDE/GOVERNMENTAL FUND FINANCIAL STATEMENTS	
EXHIBIT A--Statement of Net Assets	8
EXHIBIT B--Statement of Activities	9
EXHIBIT C--Balance Sheet	10
EXHIBIT D--Reconciliation of the Balance Sheet Fund Balance to the Statement of Net Assets.....	11
EXHIBIT E--Statement of Revenues, Expenditures and Changes in Fund Balance.....	12
EXHIBIT F--Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balance of Governmental Funds to the Statement of Activities	13
NOTES TO FINANCIAL STATEMENTS	14
 REQUIRED SUPPLEMENTARY INFORMATION	
EXHIBIT G--Schedule of Revenues and Other Financing Sources Budgetary Comparison Schedule	28
EXHIBIT H--Schedule of Expenditures--Budget and Actual Budgetary Comparison Schedule	29
 SUPPLEMENTAL SCHEDULES	
EXHIBIT I--Analysis of Changes in Fund Balances.....	30
EXHIBIT J--Analysis of Revenues and Other Financing Sources.....	31
EXHIBIT K--Analysis of Expenditures	32
Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of the Financial Statements Performed in Accordance With <u>Government Auditing Standards</u>	33

SCHOOLCRAFT COUNTY ROAD COMMISSION

MANAGEMENT'S DISCUSSION AND ANALYSIS

Using this Annual Report

The Schoolcraft County Road Commission's discussion and analysis is designed to: a) assist the reader in focusing on significant financial issues; b) provide an overview of the Road Commission's financial activity; c) identify changes in the Road Commission's financial position (its ability to address the next and subsequent year challenges); d) identify any material deviations from the approved budget; and e) identify any issues or concerns.

Overview of the Financial Statements

This annual report consists of four parts--Management's Discussion and Analysis (this section), the basic financial statements, required supplementary information, and an additional section that presents the operating fund broken down between primary, local and county funds. The basic financial statements include two kinds of statements that present different views of the Road Commission:

- The first two statements are government-wide financial statements that provide both long-term and short-term information about the Road Commission's overall financial status. These statements report information about the Road Commission, as a whole, using accounting methods similar to those used by private-sector companies. The Statement of Net Assets includes all of the government's assets and liabilities. All of the current year's revenues and expenses are accounted for in the Statement of Activities regardless of when cash is received or paid. The two government-wide statements report the Road Commission's net assets and how they have changed.
- The remaining statements are fund financial statements that focus on individual funds; reporting the operations in more detail than the government-wide statements.

Reporting the Road Commission as a Whole

The Statement of Net Assets and the Statement of Activities report information about the Road Commission, as a whole, and about its activities in a way that helps answer the question of whether the Road Commission, as a whole, is better off or worse off as a result of the year's activities. These statements include all assets and liabilities using the accrual basis of accounting, which is similar to the accounting method used by most private-sector companies. All of the year's revenues and expenses are taken into account regardless of when cash is received or paid.

The two statements mentioned above, report the Road Commission's net assets and changes in them. The reader can think of the Road Commission's net assets (the difference between assets and liabilities) as one way to measure the Road Commission's financial health or financial position. Over time, increases or decreases in the Road Commission's net assets are one indicator of whether its financial health is improving or deteriorating.

SCHOOLCRAFT COUNTY ROAD COMMISSION

MANAGEMENT'S DISCUSSION AND ANALYSIS

Reporting the Road Commission's Major Fund

The fund financial statements begin on page 10 and provide detailed information about the major fund. The Road Commission currently has only one fund, the General Operations Fund, in which all of the Road Commission's activities are accounted. The General Operations Fund is a governmental fund type.

- Governmental Fund--The governmental fund focuses on how money flows into and out of this fund and the balances left at year end that are available for spending. This fund is reported using an accounting method called modified accrual accounting which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the Road Commission's general governmental operations and the basic service it provides. Governmental fund information helps the reader to determine whether there are more or fewer financial resources that can be spent in the near future to finance the Road Commission's services. We describe the relationship (or differences) between governmental activities (reported in the Statement of Net Assets and the Statement of Activities) and the governmental fund in a reconciliation following the fund financial statements.

The Road Commission as a Whole

The Road Commission's net assets increased approximately 3.00% or \$145,898 from \$6,939,177 to \$7,085,075 for the year ended September 30, 2007. The net assets and change in net assets are summarized below.

Restricted net assets, those restricted mainly for Act 51 purposes, increased \$209,794. The primary reason for the increase in net assets was the reduction of State buy back funds used for preservation/structural improvement projects and a State trunkline audit refund of \$110,078. The investment in capital assets-net of related debt decreased by \$63,896. This was primarily due to the additions of \$1,091,773 being more than the depreciation of \$715,602, and a reduction in debt related to capital assets of \$145,926.

SCHOOLCRAFT COUNTY ROAD COMMISSION

MANAGEMENT'S DISCUSSION AND ANALYSIS

Net assets as of the year ended September 30, 2007, compared to the prior year are as follows:

	Governmental Activities 09/30/06	Governmental Activities 09/30/07	Variance Increase (Decrease)
Assets			
Current and Other Assets	\$ 2,152,320	\$ 2,314,345	\$ 162,025
Net Capital Assets	<u>7,772,332</u>	<u>7,553,653</u>	<u>(218,679)</u>
Total Assets	<u>9,924,652</u>	<u>9,867,998</u>	<u>(56,654)</u>
Liabilities			
Current Liabilities	934,086	543,073	(391,013)
Long-Term Liabilities	<u>2,051,390</u>	<u>2,239,850</u>	<u>188,460</u>
Total Liabilities	<u>2,985,476</u>	<u>2,782,923</u>	<u>(202,553)</u>
Net Assets			
Invested in Capital Assets			
Net of Related Debt	5,762,061	5,698,165	(63,896)
Restricted	<u>1,177,116</u>	<u>1,386,910</u>	<u>209,794</u>
Total Net Assets	<u>\$ 6,939,177</u>	<u>\$ 7,085,075</u>	<u>\$ 145,898</u>

SCHOOLCRAFT COUNTY ROAD COMMISSION

MANAGEMENT'S DISCUSSION AND ANALYSIS

Changes in Net Assets

A summary of changes in net assets for the year ended September 30, 2007, compared to the prior year follows:

	Governmental Activities 2006	Governmental Activities 2007	Increase (Decrease)
Program Revenue			
Licenses and Permits	\$ 4,330	\$ 5,895	\$ 1,565
Federal Grants	547,139		(547,139)
State Grants	2,082,250	2,206,745	124,495
Contributions From Local Units	245,778	141,084	(104,694)
Charges for Services	1,029,024	1,297,180	268,156
Investment Earnings	65,197	60,328	(4,869)
Reimbursements	1,082		(1,082)
General Revenue			
Insurance Recoveries	22,287		(22,287)
Gain on Equipment Disposal	500	(705)	(1,205)
Sale of Land and Buildings			-
Total Revenue	<u>3,997,587</u>	<u>3,710,527</u>	<u>(287,060)</u>
Expenses			
Primary Road Maintenance	1,085,671	1,091,435	5,764
Local Road Maintenance	476,977	581,260	104,283
State Trunkline Maintenance	958,109	1,014,071	55,962
Net Equipment Expense	489,266	307,707	(181,559)
Net Administrative Expense	145,331	109,891	(35,440)
Private Driveway Snow Plowing	22,871	17,411	(5,460)
Non-Road Project	-	26,407	26,407
Infrastructure Depreciation	276,970	338,758	61,788
Compensated Absences	(29,539)	(13,782)	15,757
Interest Expense	95,866	91,471	(4,395)
Total Expenses	<u>3,521,522</u>	<u>3,564,629</u>	<u>43,107</u>
Change in Net Assets	<u>\$ 476,065</u>	<u>\$ 145,898</u>	<u>\$ (330,167)</u>

The Road Commission's Fund

The Road Commission's General Operations Fund is used to control the expenditures of Michigan Transportation Fund monies distributed to the county which are earmarked by law for road and highway purposes.

SCHOOLCRAFT COUNTY ROAD COMMISSION

MANAGEMENT'S DISCUSSION AND ANALYSIS

For the year ended September 30, 2007, the fund balance of the General Operations Fund increased by \$196,011 as compared to a decrease of \$41,858 in the fund balance for the year ended September 30, 2006. Total revenues were \$3,710,527 a decrease of \$287,060 as compared to last year. This change was due in part to a smaller buyback of .75 cents on the dollar of State aid funds.

Total expenditures were \$3,514,515 a decrease of \$524,929 compared to last year. This change in expenditures is primarily due to no paving on primary roads as was done in 2006.

Budgetary Highlights

Prior to the beginning of any year, the Road Commission's budget is compiled based upon certain assumptions and facts available at that time. During the year, the Road Commission Board acts to amend its budget to reflect changes in these original assumptions, facts and or economic conditions that were unknown at the time the original budget was compiled. In addition, by policy, the board reviews and authorizes large expenditures when requested throughout the year.

The final revenue budget for 2007 was higher than the original budget by \$187,500. This was due, in part, to the final maintenance audit for 2004 and 2005. The actual revenue recognized during the current year was higher than the final amended budget by \$68,527. There were immaterial variances in all revenue items.

The final amended expenditure budget for the current year was \$34,228 higher than the original budget, primarily due to road construction on local roads and work completed for the City of Manistique. The actual expenditures recognized during the current year were \$28,516 higher than the final amended budget. This was primarily due to increases in equipment expense.

SCHOOLCRAFT COUNTY ROAD COMMISSION

MANAGEMENT'S DISCUSSION AND ANALYSIS

Capital Assets and Debt Administration

Capital Assets

As of September 30, 2007 the Road Commission had \$7,553,653 invested in capital assets as follows:

Capital Assets Not Being Depreciated	
Land	\$ 46,065
Land and Improvements	<u>1,052,671</u>
Subtotal	<u>1,098,736</u>
Other Capital Assets	
Land Improvements	50,519
Buildings and Improvements	3,465,028
Road Equipment	3,935,196
Shop Equipment	121,573
Office Equipment	33,838
Engineers' Equipment	16,865
Depletable Assets	69,508
Infrastructure--Bridges	28,031
Infrastructure--Roads	<u>4,568,127</u>
Subtotal	<u>12,288,685</u>
Total Capital Assets at Historic Cost	13,387,421
Total Accumulated Depreciation	<u>(5,833,768)</u>
Total Net Capital Assets	<u><u>\$ 7,553,653</u></u>

Current year's major additions included the following:

Land and Improvements	\$ 94,004
Local Road Construction	375,937
Equipment	3,784

Debt

The Road Commission currently has a debt of \$2,108,261 for the year ending September 30, 2007. Bonds on the building for \$1,745,000 will be paid off over a period of 25 years. The Road Commission currently owes \$110,488 for equipment that will be paid off over the next year. Compensated absences long-term debt amounts to \$252,773.

SCHOOLCRAFT COUNTY ROAD COMMISSION

MANAGEMENT'S DISCUSSION AND ANALYSIS

Economic Factors and Next Year's Budget

The board considered many factors when setting the fiscal year 2007-2008 budget. One of the factors is the economy. The Road Commission derives approximately 50% of its revenues from the fuel tax collected. The recent economic downturn and the increase in cost of fuel has resulted in less consumption of fuel and consequently less Michigan Transportation Funds tax to be distributed. It is estimated that Motor Vehicle Highway Funds will decline in the next fiscal year by 4% due to a slow down in the economy and vehicle traffic.

The board realizes, and the reader should understand, that there are not sufficient funds available to repair and or rebuild every road in Schoolcraft County's transportation system. Therefore, the board attempts to spend the public's money wisely and equitable and in the best interest of the motoring public and the citizens of Schoolcraft County.

Contacting the Road Commission's Financial Management

This financial report is designed to provide the motoring public, citizens and other interested parties a general overview of the Road Commission's finances and to show accountability for the money it receives. If you have any questions about this report or need additional financial information, contact the Schoolcraft County Road Commission administrative offices at Tannery Location, Manistique, Michigan 49854 (906) 341-5634.

SCHOOLCRAFT COUNTY ROAD COMMISSION
STATEMENT OF NET ASSETS
September 30, 2007

EXHIBIT A

ASSETS

Cash	\$ 467,144
Investments	650,000
Accounts Receivable	
State--Trunkline Maintenance	46,230
Michigan Transportation Fund	304,104
State--Other	8,280
Due on County Road Agreements	495,511
Sundry Accounts	31,415
Inventories	
Road Materials	185,338
Equipment Parts and Materials	74,070
Prepaid Expenses	28,253
Discount on Bond Amortization	24,000
Capital Assets (Net of Accumulated Depreciation)	<u>7,553,653</u>
Total Assets	<u>9,867,998</u>

LIABILITIES

Current Liabilities	
Accounts Payable	43,672
Due to State of Michigan	175
Accrued Liabilities	60,478
Driveway Snow Plowing Deposits	19,360
Advances from Others	13,290
Deferred Revenue	
State Buy-Back Funds	153,159
Forest Road Funds	87,451
Noncurrent Liabilities	
Advance From State	297,077
Bonds Payable--Due in One Year	55,000
Bonds Payable--Due in More Than One Year	1,690,000
Installment Purchase Agreements Payable--Due in One Year	110,488
Installment Purchase Agreements Payable--Due in More Than One Year	-
Vested Employee Benefits Payable	<u>252,773</u>
Total Liabilities	<u>2,782,923</u>

NET ASSETS

Investment in Capital Assets	
Net of Related Debt	5,698,165
Restricted for Roads	<u>1,386,910</u>
Total Net Assets	<u>\$7,085,075</u>

The Notes to Financial Statements are an integral part of this statement.

SCHOOLCRAFT COUNTY ROAD COMMISSION
STATEMENT OF ACTIVITIES
For the Year Ended September 30, 2007

EXHIBIT B

Program Expenses	
Primary Road Maintenance	\$ 1,091,434
Local Road Maintenance	581,260
State Trunkline Maintenance	1,014,071
Private Driveway Plowing	17,411
Net Equipment Expense	307,709
Net Administrative Expense	109,890
Non-Road Project	26,407
Infrastructure Depreciation	338,758
Compensated Absences	(13,782)
Interest Expense	91,471
	<hr/>
Total Program Expenses	3,564,629
	<hr/>
Program Revenue	
Charges for Services	
License and Permits	5,895
Charges for Services	1,297,181
Operating Grants and Contributions	
Michigan Transportation Funds	1,882,063
Investment Earnings	60,328
Capital Grants and Contributions	
State Grants	324,681
Contributions	141,084
	<hr/>
Total Program Revenue	3,711,232
	<hr/>
Net Program Revenue	146,603
	<hr/>
General Revenue	
Gain on Equipment Disposal	(705)
	<hr/>
Total General Revenues and Transfers In	(705)
	<hr/>
Change in Net Assets	145,898
	<hr/>
Net Assets	
Beginning of Year	6,939,177
	<hr/>
End of Year	\$ 7,085,075
	<hr/>

The Notes to Financial Statements are an integral part of this statement.

SCHOOLCRAFT COUNTY ROAD COMMISSION
BALANCE SHEET
September 30, 2007

EXHIBIT C

**GOVERNMENTAL
FUND TYPE**

ASSETS

Cash	\$1,117,144
Receivables	
State Trunkline Maintenance	46,230
Michigan Transportation Fund	304,104
State Department of Transportation--Other	8,280
Due on County Road Agreements	495,511
Interest	13,077
Sundry Accounts	18,338
Inventories	
Road Materials	185,338
Equipment Parts and Materials	74,070
Prepaid Expenses	28,253
Unamortized Bond Discount	24,000
Total Assets	<u>\$2,314,345</u>

LIABILITIES AND FUND EQUITY

Liabilities	
Accounts Payable	\$ 43,672
Accrued Interest Payable	15,029
Accrued Liabilities	45,449
Due to State of Michigan	175
Advances	
Driveway Plowing	19,360
State of Michigan	297,077
Other	13,290
Deferred Revenue	
Forest Road Funds	87,451
State Buy Back Program--Federal Aid Exchange	153,159
Total Liabilities	<u>674,662</u>
Fund Equities	
Fund Balance	
Reserved for Long-Term Receivables	307,531
Reserved for Inventory	259,408
Reserved for Prepaid Expenses	28,253
Unreserved and Undesignated	1,044,491
Total Fund Equities	<u>1,639,683</u>
Total Liabilities and Fund Equities	<u>\$2,314,345</u>

The Notes to Financial Statements are an integral part of this statement.

**SCHOOLCRAFT COUNTY ROAD COMMISSION
RECONCILIATION OF THE BALANCE SHEET FUND
BALANCE TO THE STATEMENT OF NET ASSETS
For the Year Ended September 30, 2007**

EXHIBIT D

Total Governmental Fund Balance	\$ 1,639,685
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Amounts reported for governmental activities in the Statement of Net Assets are
are different because:

Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	7,553,651
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Other long-term assets are not available to pay for current period expenditures and, therefore, are not reported in the funds.	<u>(2,108,261)</u>
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Net Assets of Governmental Activities	<u><u>\$ 7,085,075</u></u>
---------------------------------------	----------------------------

The Notes to Financial Statements are an integral part of this statement.

SCHOOLCRAFT COUNTY ROAD COMMISSION
STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCE
For the Year Ended September 30, 2007

EXHIBIT E

	Operating Fund
Revenues	
Licenses and Permits	\$ 5,895
State Grants	2,206,745
Contributions From Local Units	141,084
Charges for Services	1,234,380
Interest and Rents	60,328
Other Revenue	62,095
	<hr/>
Total Revenues	3,710,527
	<hr/>
Expenditures	
Public Works	3,618,123
Capital Outlay--Net	(349,863)
Debt Service	246,255
	<hr/>
Total Expenditures	3,514,515
	<hr/>
Excess of Revenues Over (Under) Expenditures	196,012
	<hr/>
Other Financing Sources	
Insurance Recoveries	-
	<hr/>
Total Other Financing Sources	-
	<hr/>
Excess of Revenues and Other Financing Sources Over Expenditures	196,012
	<hr/>
Fund Balance--October 1, 2006	1,443,671
	<hr/>
Fund Balance--September 30, 2007	\$ 1,639,683
	<hr/> <hr/>

The Notes to Financial Statements are an integral part of this statement.

**SCHOOLCRAFT COUNTY ROAD COMMISSION
RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES AND CHANGES IN FUND BALANCE OF
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
For the Year Ended September 30, 2007**

EXHIBIT F

Net Change in Fund Balance--Total Governmental Funds	\$ 196,012
------------------------------------------------------	------------

Amounts reported for governmental activities in the Statement of Activities
are different because:

Governmental funds report capital outlays as expenditures. However, in the Statement of Activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period. Equipment retirement is recorded as an expenditure credit in governmental funds, but not recorded as an expense in the Statement of Activities.	(218,680)
--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------	-----------

Lease proceeds provide current financial resources to governmental funds, but entering into lease agreements increases long-term liabilities in the Statement of Net Assets. Repayment of notes/leases payable is an expenditure in governmental funds, but reduces the long-term liabilities in the Statement of Net Assets.	154,784
-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------	---------

Some expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds. (Increase in compensated absences and decrease in interest expense)	13,782
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Change in Net Assets of Governmental Activities	<u>\$ 145,898</u>
-------------------------------------------------	-------------------

The Notes to Financial Statements are an integral part of this statement.

SCHOOLCRAFT COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS

The accounting policies of the Schoolcraft County Road Commission conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The following is a summary of the significant accounting policies used by Schoolcraft County Road Commission.

NOTE A--REPORTING ENTITY

The Schoolcraft County Road Commission, which is established pursuant to the County Road Law, Michigan Compiled Laws (MCL) 224.1, is governed by an elected 3 member board of county road commissioners. The Road Commission may not issue debt or levy a tax without the approval of the county board of commissioners.

The criteria established by the Governmental Accounting Standards Board (GASB) Statement No. 14, "The Financial Reporting Entity," for determining the reporting entity includes oversight responsibility, fiscal dependency, and whether the financial statements would be misleading if the component unit data were not included. Based on the above criteria, these financial statements present the Schoolcraft County Road Commission, a discretely presented component unit of Schoolcraft County.

The Road Commission Operating Fund is used to control the expenditures of Michigan Transportation Fund monies distributed to the county, which are earmarked by law for street and highway purposes. The board of county road commissioners is responsible for the administration of the Road Commission Operating Fund.

NOTE B--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation--Government-Wide Financial Statements

The government-wide financial statements (i.e., the Statement of Net Assets and the Statement of Activities) report information on all of the activities of the Schoolcraft County Road Commission. There is only one fund reported in the government-wide financial statements.

The Statement of Net Assets presents the Road Commission's assets and liabilities with the difference being reported as either invested in capital assets-net of related debt, or restricted net assets.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include: 1) charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function or segment; and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenue.

SCHOOLCRAFT COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS

NOTE B--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Basis of Presentation--Fund Financial Statements

Separate financial statements are provided for the operating fund (governmental fund). The Operating Fund is an independent fiscal and accounting entity with a self-balancing set of accounts. Fund accounting segregates funds according to their intended purpose and is used to aid management in demonstrating compliance with finance-related legal and contractual provisions.

Measurement Focus/Basis of Accounting--Government-Wide Financial Statements

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Amounts reported as program revenue include: 1) charges to customers or applicants for goods or services or privileges provided; 2) Michigan Transportation Funds (MTF), State/Federal contracts and township contributions. Internally dedicated resources are reported as general revenue rather than as program revenue. Likewise, general revenue includes all taxes.

Measurement Focus/Basis of Accounting--Fund Financial Statements

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Michigan Transportation Funds, grants, permits, township contributions and interest associated with the current fiscal period are all considered to be susceptible to accrual and have been recognized as revenue of the current fiscal period. All other revenue items are considered to be available only when cash is received by the government.

Bank Deposits and Investments

Cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with a maturity of three months or less when acquired. Investments are stated at fair value.

SCHOOLCRAFT COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS

NOTE B--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Inventories

Inventories are priced at cost as determined on the average unit cost method. Inventory items are charged to road construction and maintenance, equipment repairs and operations, as used.

Prepaid Expenses

Certain payments to vendors reflect costs applicable to future fiscal years and are recorded as prepaid expenses in both the government-wide and fund financial statements.

Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges and similar items), are reported in the Operating Fund in the government-wide financial statements. Capital assets are defined by Schoolcraft County Road Commission as assets with an initial individual cost of more than \$250 and an estimated useful life in excess of two years. Such assets are recorded at historical costs or estimated historical cost of purchase or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

GASB Statement No. 34 requires major networks and major subsystems of infrastructure assets acquired, donated, constructed, or substantially rehabilitated be reported prospectively. The Schoolcraft County Road Commission, beginning with the fiscal year ended September 30, 2002, has capitalized each current year's infrastructure, as required by GASB No. 34, and has reported the infrastructure in the Statement of Net Assets. The Road Commission has opted to not retroactively capitalize the major infrastructure assets prior to October 1, 2001, as permitted by GASB No. 34 for phase 3 governments.

Depreciation

Depreciation is computed on the sum-of-the-years'-digits method for road equipment and straight-line method for all other capital assets. The depreciation rates are designed to amortize the cost of the assets over their estimated useful lives as follows:

Buildings	30 to 50 years
Road Equipment	5 to 8 years
Shop Equipment	10 years
Engineering Equipment	4 to 10 years
Office Equipment	4 to 10 years
Infrastructure--Roads	8 to 30 years
Infrastructure--Bridges	12 to 50 years

SCHOOLCRAFT COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS

NOTE B--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Long-Term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the Operating Fund Statement of Net Assets.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

NOTE C--STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Budgetary Procedures

Budgetary procedures are established pursuant to Public Act 2 of 1968, as amended, (MCL 141.421) which requires the board of county road commissioners to approve a budget for the County Road Fund. Pursuant to the Act, the Road Commission's chief administrative officer (engineer/manager) prepares and submits a proposed operating budget to the board of county road commissioners for its review and consideration. The board conducts a public budget hearing and subsequently adopts an operating budget. The board has authorized the chief administrative officer to amend the Road Commission budget, when necessary, without increasing the overall budget, by transferring up to 25% from one line-item to another. The budget is prepared on the modified accrual basis of accounting, which is the same basis as the financial statements.

The Road Commission has not complied with certain provisions of Public Act 2 of 1968, as amended. Expenditures were incurred in excess of the amount appropriated in the amended budget for two activities of the County Road Fund as follows:

	Final Amended Budget	Actual	Variance (Unfavorable)
County Road Fund			
Equipment Expense--Net	\$ 115,792	\$ 307,707	\$ (191,915)
Capital Outlay--Net	(394,000)	(349,863)	(44,137)

SCHOOLCRAFT COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS

NOTE D--DEPOSITS AND INVESTMENTS

Deposits are carried at cost. Deposits of the County Road Fund are made in three banks in the name of the Schoolcraft County Treasurer. Public Act 20 of 1943, as amended, authorizes the county treasurer to deposit and invest in the accounts of federally insured banks, credit unions, and savings and loan associations; bonds, securities, and direct obligations of the United States, or any agency or instrumentality of the United States; United States government or Federal agency obligation repurchase agreements; bankers' acceptance of United States banks; mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan; commercial paper rated by two standard rating agencies within the two highest classifications, which matures not more than 270 days after the date of purchase; and obligations of the State of Michigan or its political subdivisions which are rated investment grade. Financial institutions eligible for deposit of public funds must maintain an office in Michigan. The Road Commission deposits are in accordance with statutory authority.

The board of county road commissioners has adopted an investment policy similar to the county's policy in accordance with investment provisions in Public Act 20 of 1943.

The Road Commission's insured deposit amount results from the County Road Fund meeting certain specified criteria under FDIC regulations. The risk disclosures for the Road Commission deposits, as required by the Governmental Accounting Standards Board (GASB) Statement No. 40 are as follows:

At year end (and during the year), the Road Commission did not have any investments, the deposits were reported in the basic financial statements in the following categories:

Bank Deposits (Checking and Savings Accounts, Certificates of Deposits)	<u>\$1,117,144</u>
Total	<u><u>\$1,117,144</u></u>

The bank balance of the Road Commission's deposits is \$1,117,144, of which \$200,985 is covered by Federal depository insurance.

Investments Authorized by the Road Commission's Investment Policy

The Road Commission's investment policy authorizes investment in all those that are authorized by law. As stated above, the Road Commission did not have any investments in the fiscal year ended September 30, 2007.

SCHOOLCRAFT COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS

NOTE D--CASH AND INVESTMENTS (Continued)

Disclosures Relating to Credit Risk

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. The Road Commission's investment policy does not contain specific provisions to limit their exposure to credit risk.

Disclosures Relating to Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. The Road Commission's investment policy does not contain specific provisions to limit their exposure to interest rate risk.

Concentration of Credit Risk

Concentration of credit risk is the risk of loss attributed to the magnitude of an entity's investment in a single issuer where the investment is 5% or greater.

The Road Commission's investment policy requires assets to be diversified to eliminate the risk of loss resulting from over concentration in a specific maturity, individual financial institution(s) or a specific class of securities.

Custodial Credit Risk

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. Michigan law does not contain requirements that would limit the exposure to custodial credit risk for deposits. However, the asset diversification requirements included in the Road Commission's investment policy would limit, to some extent, exposure to custodial credit risk for deposits.

The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty (e.g., broker-dealer) to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party. Michigan law does not contain legal requirements that would limit the exposure to custodial credit risk for investments. However, the Road Commission's investment policy does contain a safekeeping and custody section that would limit the exposure to custodial credit risk for investments. With respect to investments, custodial credit risk generally applies only to direct investments in marketable securities. Custodial credit risk does not apply to a local government's indirect investment in securities through the use of mutual funds or government investment pools. The Road Commission is not exposed to custodial credit risk for investments.

SCHOOLCRAFT COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS

NOTE E--RESERVE FOR LONG-TERM RECEIVABLES

An estimated \$307,531 of the amount recorded as "Due on County Road Agreements" is not expected to be received within one year and, accordingly, is reserved from the fund balance available for current operations at September 30, 2007.

NOTE F--CAPITAL ASSETS

The following is a summary of changes in the capital assets:

	Account Balances 10/01/06	Additions	Deductions	Account Balances 09/30/07
Capital Assets Not Being Depreciated				
Land	\$ 46,065			\$ 46,065
Infrastructure--Land Improvements	958,667	\$ 94,004		1,052,671
Subtotal	1,004,732	94,004	\$ -	1,098,736
Capital Assets Being Depreciated				
Land Improvements	50,519			50,519
Buildings	3,465,028			3,465,028
Road Equipment	3,934,685	511		3,935,196
Shop Equipment	121,003	570		121,573
Office Equipment	34,265	2,703	3,130	33,838
Engineer's Equipment	16,865			16,865
Depletable Assets	69,508			69,508
Infrastructure--Bridges	28,031			28,031
Infrastructure--Roads	4,192,190	375,937		4,568,127
Total	11,912,094	379,721	3,130	12,288,685
Less Accumulated Depreciation				
Land Improvements	10,104	3,368		13,472
Building	691,859	102,000		793,859
Road Equipment	3,451,714	239,867		3,691,581
Shop Equipment	86,260	7,061		93,321
Office Equipment	21,511	3,515	2,425	22,601
Engineer's Equipment	16,064	499		16,563
Depletable Assets	22,403			22,403
Infrastructure--Bridges	9,344	2,336		11,680
Infrastructure--Roads	835,234	333,054		1,168,288
Total	5,144,493	691,700	2,425	5,833,768
Net Capital Assets Being Depreciated	6,767,601	379,721	692,405	6,454,917
Total Net Capital Assets	\$ 7,772,333	\$ 473,725	\$ 692,405	\$ 7,553,653

SCHOOLCRAFT COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS

NOTE F--CAPITAL ASSETS (Continued)

Depreciation expense was charged to the following activities:

Net Equipment Expense	
Direct Equipment	\$ 239,866
Indirect Equipment	
Shop Building	99,095
Shop Equipment	7,061
State Salt Shed	2,905
Net Administrative Expenses	
Engineering Equipment	499
Office Equipment and Furniture	3,515
Land Improvements	3,368
Infrastructure Depreciation Expense	<u>335,391</u>
Total Depreciation Expense	<u><u>\$ 691,700</u></u>

NOTE G--LONG-TERM DEBT

The general long-term debt obligations of the Schoolcraft County Road Commission, and changes therein, may be summarized as follows:

	Balance 10/01/06	Additions (Reductions)	Balance 09/30/07	Due in One Year
Bonds Payable				
Michigan Transportation Fund Bonds Series 2002	\$1,800,000	\$ (55,000)	\$ 1,745,000	\$ 55,000
Installment Purchase Contract				
Wells Fargo 2003 Equipment	210,272	(99,784)	110,488	110,488
Vested Employee Benefits				
Vacation and Sick Leave	<u>266,555</u>	<u>(13,782)</u>	<u>252,773</u>	
Totals	<u><u>\$2,276,827</u></u>	<u><u>\$ (168,566)</u></u>	<u><u>\$ 2,108,261</u></u>	<u><u>\$ 165,488</u></u>

SCHOOLCRAFT COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS

NOTE G--GENERAL LONG-TERM DEBT (Continued)

Bonds Payable

Michigan Transportation Fund Bonds, Series 2002

The Road Commission financed the construction of a new building through the issuance of Michigan Transportation Fund Bonds through Bank One Trust Company. The terms and annual principal and interest requirements are as follows:

Terms: Date of issue was July 1, 2002 in the amount of \$2,000,000 at variable interest rates paid semi-annually with interest ranging from 2% to 4.85% commencing on February 1, 2003 through August 1, 2027 and annual principal payments ranging from \$50,000 to \$135,000.

Year	Principal 1-Aug	Interest		Annual Total
		1-Feb	1-Aug	
2008	\$ 55,000	\$ 39,271	\$ 39,271	\$ 133,542
2009	55,000	38,405	38,405	131,810
2010	60,000	37,470	37,470	134,940
2011	60,000	36,390	36,390	132,780
2012	65,000	35,280	35,280	135,560
2013	65,000	34,045	34,045	133,090
2014	70,000	32,745	32,745	135,490
2015	75,000	31,310	31,310	137,620
2016	75,000	29,735	29,735	134,470
2017	80,000	28,122	28,122	136,244
2018	85,000	26,362	26,362	137,724
2019	90,000	24,450	24,450	138,900
2020	95,000	22,380	22,380	139,760
2021	100,000	20,171	20,171	140,342
2022	105,000	17,796	17,796	140,592
2023	110,000	15,250	15,250	140,500
2024	115,000	12,500	12,500	140,000
2025	120,000	9,625	9,625	139,250
2026	130,000	6,625	6,625	143,250
2027	135,000	3,375	3,375	141,750
Total	<u>\$ 1,745,000</u>	<u>\$501,307</u>	<u>\$501,307</u>	<u>\$2,747,614</u>

SCHOOLCRAFT COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS

NOTE G--LONG-TERM DEBT (Continued)

Loans Payable--Equipment Purchases

The Road Commission financed the purchase of six trucks through Wells Fargo Equipment Finance, Inc., which disbursed the payment directly to the vendor and has pledged the equipment as security on September 22, 2003. The terms and annual principal and interest requirements are as follows:

Terms: Purchase price of \$504,647 at 3.95% interest from October 2003 to June 2008, with five annual payments of \$112,315.66 beginning June 30, 2004.

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2008	<u>\$110,488</u>	<u>\$ 1,828</u>	<u>\$112,316</u>
Total	<u><u>\$110,488</u></u>	<u><u>\$ 1,828</u></u>	<u><u>\$112,316</u></u>

Vested Employee Vacation Benefits

Vacation benefits are earned in varying amounts depending on the employee's years of service. Prior to January 1, 1993, the Road Commission's vacation policy required all vacation benefits to be used within the calendar year in which they were credited. New vacation policies effective on January 1, 1993 provided for all employees to be credited on January 1, 1993 with the vacation benefits they earned for the year 1992, and the 1993 vacation benefits to be credited on a per month basis with employees permitted to accumulate up to a maximum of 2 years of vacation benefits. The liability recorded in the long-term debt for vacation earned but not used, as of September 30, 2007, totaled \$74,129.

Vested Employee Sick Leave Benefits

Sick leave benefits are earned at the rate of 1 day for each calendar month in which the employee has worked at least 12 days and shall be accumulated up to 105 days. Upon reaching the maximum 105 days for sick leave, an additional two days per year will be granted for each year of agreement. Maximum sick days will be 111. Upon retirement or death, an employee, or his estate, shall be paid for 100% of accumulated sick leave. The accumulated sick leave of \$178,644 recorded in the long-term debt consists of 100% of the maximum accumulated sick leave at September 30, 2007.

SCHOOLCRAFT COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS

NOTE H--DEFERRED COMPENSATION PLAN

The Schoolcraft County Board of Road Commissioners offers all Road Commission employees a deferred compensation plan created in accordance with the Internal Revenue Code, Section 457. The assets of the plan were held in a trust, custodial account or annuity contract described in IRC Section 457(g) for the exclusive benefit of the participants (employees) and their beneficiaries. The custodial account is held by the custodian thereof for the exclusive benefit of the participants and beneficiaries of this Section 457 plan and the assets may not be diverted to any other use. The administrator (PEBSCO) is an agent of the employer for purposes of providing direction to the custodian of the custodial account from time to time for the investment of the funds held in the account, transfer of assets to or from the account, and all other matters. In accordance with the provisions of GASB Statement No. 32, plan balances and activities are not reflected in the Road Commission's financial statements.

NOTE I--EMPLOYEES' RETIREMENT SYSTEM

Description of Plan and Plan Assets

The Schoolcraft County Road Commission is in an agent multiple-employer defined benefit pension plan with the Municipal Employees' Retirement System (MERS). The system provides the following provisions: normal retirement, deferred retirement, service retirement allowance, disability retirement allowance, nonduty-connected death and post-retirement adjustments to plan members and their beneficiaries. The service requirement is computed using credited service at the time of termination of membership multiplied by the sum of 2.25% times the final average compensation (FAC) with a maximum benefit of 80% of FAC. The most recent period for which actuarial data was available was for the calendar year ended December 31, 2006.

MERS was organized pursuant to Section 12a of Public Act 156 of 1851, as amended (MCL 46.12a) State of Michigan. MERS is regulated under Public Act 427 of 1984, sections of which have been approved by the State Pension Commission. MERS issues a publicly available financial report that includes financial statements and required supplementary information for the system. That report may be obtained by writing to MERS at 1134 Municipal Way, Lansing, Michigan 48917.

Funding Policy

The obligation to contribute to and maintain the system for these employees was established by negotiation with the Road Commission's competitive bargaining unit and personnel policy, which does not require employees to contribute to the plan. The Road Commission is required to contribute at an actuarially determined rate. At December 31, 2004, a rate of 20.40% of annual compensation was actuarially determined to be applied to annual compensation for calendar year 2006.

SCHOOLCRAFT COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS

NOTE I--EMPLOYEES' RETIREMENT SYSTEM (Continued)

Annual Pension Cost

For the calendar year ended December 31, 2006, the Road Commission's annual pension cost was \$301,221, which was equal to the Road Commission's actual contributions. The annual required contribution was determined as part of an actuarial valuation at December 31, 2004. The employer contribution rate has been determined based on the entry age normal funding method. Under the entry age normal cost funding method, the total employer contribution is comprised of the normal cost plus the level annual percentage of payroll payment required to amortize the unfunded actuarial accrued liability over 30 years. The employer normal cost is, for each employee, the level percentage of payroll contribution (from entry age to retirement) required to accumulate sufficient assets at the member's retirement to pay for his or her projected benefit. Significant actuarial assumptions used include a long-term investment yield rate of 8% and annual salary increases of 4.5% based on an age-related scale to reflect merit, longevity, and promotional salary increases.

Three Year Trend Information for GASB Statement No. 27

<u>Ended December 31</u>	<u>Pension Cost (APC)</u>	<u>Of APC Contributed</u>	<u>Pension Obligation</u>
2004	\$ 243,432	100%	\$0
2005	253,725	100%	\$0
2006	301,221	100%	\$0

Required Supplementary Information for GASB Statement No. 27

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets</u>	<u>Actuarial Accrued Liability (AAL)</u>	<u>Underfunded (Overfunded) AAL (UAAL)</u>	<u>Funded Ratio</u>	<u>Covered Payroll</u>	<u>UAAL as a Percent of Covered Payroll</u>
12/31/04	\$ 6,305,405	\$ 9,196,675	\$ 2,891,270	69%	\$ 1,416,124	204%
12/31/05	6,424,004	9,603,356	3,179,352	67%	1,258,646	253%
12/31/06	6,660,345	10,501,104	3,840,759	63%	1,161,701	331%

SCHOOLCRAFT COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS

NOTE J--RISK MANAGEMENT

The Road Commission is exposed to various risks of loss related to property loss, torts, errors and omissions, employee injuries, as well as medical benefits provided to employees. The Road Commission is a member of the Michigan County Road Commission Self Insurance Pool (Pool) established pursuant to the laws of the State of Michigan which authorizes contracts between municipal corporations (interlocal agreements) to form group self-insurance pools, and to prescribe conditions to the performance of these contracts.

The Pool was established for the purpose of making a self-insurance pooling program available which includes, but is not limited to, general liability coverage, auto liability coverage, property insurance coverage, stop loss insurance protections, claims administration and risk management and loss control services pursuant to Public Act 138 of 1982.

The Road Commission pays an annual premium to the Pool for property (buildings and contents) coverage, automobile and equipment liability, trunkline liability, errors and omissions and bodily injury, property damage and personal injury liability. The agreement for the information of the Pool provides that the Pool will be self-sustaining through member premiums and will purchase both specific and aggregate stop-loss insurance to the limits determined necessary by the Pool Board.

The Road Commission also has self-insurance for workers' compensation as a member of the County Road Association Self-Insurance Fund.

At September 30, 2007, there were no claims that exceeded insurance coverage. The Road Commission did not have any significant reduction in insurance coverage from previous years. Settled claims for the Road Commission have not exceeded the amount of insurance coverage in any of the past 4 years.

NOTE K--CONTINGENT LIABILITIES

The Road Commission, in connection with the normal conduct of its affairs, is involved in various claims, judgments, and litigation. The Road Commission's insurance carrier estimates that the potential claims against the Road Commission, not covered by insurance resulting from such litigation, would not materially affect the financial statements of the Road Commission.

SCHOOLCRAFT COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS

NOTE L--POST-EMPLOYMENT BENEFITS

The Road Commission provides post-employment health care benefits in accordance with the labor contract and personnel policy as follows:

Effective January 1, 2000, upon retirement or disability retirement, from age 55 to 65 each employee will receive single subscriber health insurance benefits at a cost of 100% paid by the Road Commission. In order to be eligible between the ages of 55 to 65, the retiree must have worked a minimum of 15 years with the Road Commission. After age 60, years of service is not an eligibility requirement. At age 65 or older, the Road Commission will pay \$50 towards retirees' supplemental insurance. There were 8 employees that qualified during the year ended September 30, 2007. The total cost was \$95,411 and the amount reimbursed by retirees was \$39,954 with a net cost to the Road Commission of \$55,457. The expenditures are recognized as the insurance premiums become due.

SCHOOLCRAFT COUNTY ROAD COMMISSION
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF REVENUES AND OTHER FINANCING SOURCES
BUDGETARY COMPARISON SCHEDULE
For the Year Ended September 30, 2007

EXHIBIT G

	Original Budget	Final Amended Budget	Actual	Variance Favorable (Unfavorable)
Licenses and Permits				
Permits	\$ 5,000	\$ 5,000	\$ 5,895	\$ 895
State Grants				
Michigan Transportation Fund				
Engineering	10,000	2,500	2,500	-
Primary Road	1,270,000	1,350,000	1,345,297	(4,703)
Local Road	350,000	367,500	407,268	39,768
Snow Removal	120,000	120,000	126,999	6,999
Economic Development Fund				
Forest Road Funds (E)	200,000	200,000	177,840	(22,160)
State Buyback--Federal Aid Exchange	262,500	150,000	146,841	(3,159)
Contributions--Local Units				
Townships	120,000	110,000	116,340	6,340
Cities and Villages	-		24,744	24,744
Charges for Services				
State Trunkline Maintenance	900,000	1,123,000	1,134,435	11,435
State Trunkline Non-Maintenance	70,000	82,000	81,836	(164)
Private Drive Snow Removal	25,000	18,000	17,410	(590)
Salvage Sales	-	1,000	699	(301)
Interest and Rents				
Interest Earned	30,000	50,000	60,328	10,328
Other Revenue				
Gain on Sale of Timber	92,000	63,000	62,800	(200)
Gain on Equipment Disposal	-	-	(705)	(705)
Total Operating Revenue	3,454,500	3,642,000	<u>\$ 3,710,527</u>	<u>\$ 68,527</u>
Fund Balance--October 1, 2006	1,572,614	1,443,671		
Total Budget	<u>\$ 5,027,114</u>	<u>\$ 5,085,671</u>		

The Notes to Financial Statements are an integral part of this statement.

SCHOOLCRAFT COUNTY ROAD COMMISSION
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF EXPENDITURES--BUDGET AND ACTUAL
BUDGETARY COMPARISON SCHEDULE
For the Year Ended September 30, 2007

EXHIBIT H

	Original Budget	Final Amended Budget	Actual	Variance Favorable (Unfavorable)
Primary Road				
Preservation/Structural Improvement	\$ 500,000	\$ 376,398	\$ 293,044	\$ 83,354
Routine and Preventive Maintenance	608,772	1,111,871	1,091,435	20,436
Local Road				
Preservation/Structural Improvement	200,000	192,915	176,897	16,018
Routine and Preventive Maintenance	550,000	619,485	581,260	38,225
State Trunkline Maintenance	900,000	975,000	932,235	42,765
State Trunkline Non-Maintenance	70,000	82,000	81,836	164
Private Drive Snow Removal	25,000	21,432	17,411	4,021
Equipment Expense--Net	(100,000)	115,792		
Direct			\$ 826,608	
Indirect			409,719	
Operating			267,810	
Less: Equipment Rentals			<u>(1,196,430)</u>	<u>307,707</u>
				(191,915)
Distributive Expense	710,000	-		-
Administrative Expense--Net	40,000	110,436		
Administrative Expense			210,737	
Less: Handling Charges			-	
Overhead--State			(99,386)	
Overhead--State Non-Maintenance			-	
Overhead--Other			(1,460)	
Purchase Discounts			<u>109,891</u>	<u>545</u>
Other Non-Road Projects		26,671	26,407	264
Capital Outlay--Net	(300,000)	(394,000)		
Capital Outlay			3,784	
Less: Depreciation Credits			(352,942)	
Equipment Retirements			<u>(705)</u>	<u>(349,863)</u>
				(44,137)
Debt Service				
Principal Payments	148,000	155,000	154,784	216
Interest Expense	<u>100,000</u>	<u>93,000</u>	<u>91,471</u>	<u>1,529</u>
Total Expenditures	3,451,772	3,486,000	<u>\$ 3,514,515</u>	<u>\$ (28,515)</u>
Fund Balance--September 30, 2007	<u>1,572,614</u>	<u>1,443,671</u>		
Total Budget	<u>\$ 5,024,386</u>	<u>\$ 4,929,671</u>		

The Notes to Financial Statements are an integral part of this statement.

SCHOOLCRAFT COUNTY ROAD COMMISSION
ANALYSIS OF CHANGES IN FUND BALANCES
For the Year Ended September 30, 2007

EXHIBIT I

	Primary Road Fund	Local Road Fund	County Road Commission	Total
Total Revenues	\$1,676,319	\$ 689,122	\$1,345,086	\$ 3,710,527
Total Expenditures	1,539,441	872,614	1,102,460	3,514,515
Excess of Revenues Over (Under) Expenditures	136,878	(183,492)	242,626	196,012
Other Financing Sources (Uses) Optional Transfers	(250,000)	250,000		-
Total Other Financing Sources (Uses)	(250,000)	250,000	-	-
Excess of Revenues Over (Under) Expenditures and Other Financing Sources and (Uses)	(113,122)	66,508	242,626	196,012
Fund Balance--October 1, 2006	862,962	150,609	430,100	1,443,671
Fund Balance--September 30, 2007	<u>\$ 749,840</u>	<u>\$ 217,117</u>	<u>\$ 672,726</u>	<u>\$ 1,639,683</u>

SCHOOLCRAFT COUNTY ROAD COMMISSION
ANALYSIS OF REVENUES AND OTHER FINANCING SOURCES
For the Year Ended September 30, 2007

EXHIBIT J

	Primary Road Fund	Local Road Fund	County Road Commission	Total
Licenses and Permits				
Permits			\$ 5,895	\$ 5,895
State Grants				
Michigan Transportation Fund				
Engineering	\$ 1,914	\$ 586		2,500
Allocation	1,345,297	407,268		1,752,565
Snow Removal		126,999		126,999
Economic Development Fund				
Forest Road Funds (E)	146,203	31,637		177,840
State Buyback--Federal Aid Exchange	146,841			146,841
Contributions--Local Units				
Townships		116,340		116,340
Cities and Villages			24,744	24,744
Charges for Services				
State Trunkline Maintenance			1,134,435	1,134,435
State Trunkline Non-Maintenance			81,836	81,836
Private Drive Snow Removal			17,410	17,410
Salvage Sales			699	699
Interest and Rents				
Interest Earned	36,064	6,292	17,972	60,328
Rent			-	-
Other Revenue				
Contribution From Private Sources		-		-
Refunds/Rebates			-	-
Sale of Timber			62,800	62,800
Gain on Equipment Disposal	-		(705)	(705)
Total Operating Revenue	1,676,319	689,122	1,345,086	3,710,527
Other Financing Sources				
Insurance Recoveries	-		-	-
Total Other Financing Sources	-	-	-	-
Total Revenue and Other Financing Sources	\$ 1,676,319	\$ 689,122	\$ 1,345,086	\$ 3,710,527

SCHOOLCRAFT COUNTY ROAD COMMISSION
ANALYSIS OF EXPENDITURES
For the Year Ended September 30, 2007

EXHIBIT K

	Primary Road Fund	Local Road Fund	County Road Commission	Total
Primary Road				
Preservation/Structural Improvement	\$ 293,044			\$ 293,044
Routine and Preventive Maintenance	1,091,435			1,091,435
Local Road				
Preservation/Structural Improvement		\$ 176,897		176,897
Routine and Preventive Maintenance		581,260		581,260
State Trunkline Maintenance			\$ 932,235	932,235
State Trunkline Non-Maintenance			81,836	81,836
Private Snow Plowing			17,411	17,411
Equipment Expense--Net (Per Exhibit H)	129,053	75,573	103,081	307,707
Administrative Expense--Net (Per Exhibit H)	71,007	38,884		109,891
Other Non-Road Projects			26,407	26,407
Capital Outlay--Net (Per Exhibit H)	(177,242)		(172,621)	(349,863)
Debt Service				
Principal Payments	55,000		99,784	154,784
Interest Payments	77,144		14,327	91,471
Total Expenditures	<u>\$ 1,539,441</u>	<u>\$ 872,614</u>	<u>\$ 1,102,460</u>	<u>\$ 3,514,515</u>



JENNIFER M. GRANHOLM
GOVERNOR

STATE OF MICHIGAN
DEPARTMENT OF TREASURY
LANSING

ROBERT J. KLEINE
STATE TREASURER

November 8, 2007

Schoolcraft County Road Commission
Board of County Road Commissioners
P.O. Box 160
Manistique, Michigan 49854

RE: Report on Internal Control Over Financial Reporting and on Compliance and Other
Matters Based on an Audit of the Financial Statements Performed in Accordance With
Government Auditing Standards

Dear Commissioners:

We have audited the financial statements of the Schoolcraft County Road Commission, a component unit of Schoolcraft County, as of and for the year ended September 30, 2007, and have issued our report thereon dated November 8, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Schoolcraft County Road Commission's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Schoolcraft County Road Commission's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Schoolcraft County Road Commission's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

This report is intended solely for the information and use of management, the Schoolcraft County Board of Road Commissioners, others within the Schoolcraft County Road Commission, and Federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.



Cary Jay Vaughn, CPA, CGFM
Audit Manager
Local Audit and Finance Division